

2007 Emerging Issues Forum

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Panel One: The National Pension Crisis

Reflections of a Bi-Coastal Actuary



CalPERS and PERAC

Reflections of a Bi-Coastal Actuary

PERAC Emerging Issues Forum
June 26, 2007

Overview

- Some CalPERS Facts
- Assets and Investment Returns
- Employer Contributions
- What Will the Future Bring?

Some CalPERS Facts

- It is BIG
 - Almost 2,000 employees work for CalPERS
 - 47 in the Actuarial Office, including 16 actuaries
 - 1.5 million members, 1/3rd receiving benefits
 - Over 1,500 public agencies
 - Largest pension fund in the U.S., 3rd largest worldwide

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Some CalPERS Facts

- Not just pensions
 - Health benefits
 - Long-term care program
 - Home loan program
 - 457 plan

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Some CalPERS Facts

- Plan essentially the same as PERAC
 - Defined benefit plan
 - Employee contributions set by law
 - Employer contributions actuarially determined

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Some CalPERS Facts

- Difference in the details
 - 50+ benefit options, including 9 local benefit formulas (see attached)
 - Contributions are a percent of pay
 - Amendment costs must be made public
 - Everything done through PERS

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Benefit Formulas (miscellaneous)

AGE	Local Miscellaneous					State Miscellaneous	
	2% @ 60	2% @ 55	2.5% @ 55	2.7% @ 55	3% @ 60	2% @ 55	Tier 2 1.25% @ 65
50	1.0920	1.4260	2.0000	2.0000	2.0000	1.1000	0.5000
51	1.1560	1.5220	2.1000	2.1400	2.1000	1.2800	0.5500
52	1.2240	1.6280	2.2000	2.2800	2.2000	1.4600	0.6000
53	1.2960	1.7420	2.3000	2.4200	2.3000	1.6400	0.6500
54	1.3760	1.8660	2.4000	2.5600	2.4000	1.8200	0.7000
55	1.4600	2.0000	2.5000	2.7000	2.5000	2.0000	0.7500
56	1.5520	2.0520	2.5000	2.7000	2.6000	2.0640	0.8000
57	1.6500	2.1040	2.5000	2.7000	2.7000	2.1260	0.8500
58	1.7580	2.1560	2.5000	2.7000	2.8000	2.1880	0.9000
59	1.8740	2.2100	2.5000	2.7000	2.9000	2.2500	0.9500
60	2.0000	2.2620	2.5000	2.7000	3.0000	2.3140	1.0000
61	2.1340	2.3140	2.5000	2.7000	3.0000	2.3760	1.0500
62	2.2720	2.3660	2.5000	2.7000	3.0000	2.4380	1.1000
63	2.4180	2.4180	2.5000	2.7000	3.0000	2.5000	1.1500
64	2.4180	2.4180	2.5000	2.7000	3.0000	2.5000	1.2000
65	2.4180	2.4180	2.5000	2.7000	3.0000	2.5000	1.2500

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Benefit Formulas (safety)

AGE	Local Safety				State Safety
	2% @ 55	2% @ 50	3% @ 55	3% @ 50	2.5% @ 55
50	1.4260	2.0000	2.4000	3.0000	1.7000
51	1.5220	2.1400	2.5200	3.0000	1.8000
52	1.6280	2.2800	2.6400	3.0000	1.9000
53	1.7420	2.4200	2.7600	3.0000	2.0000
54	1.8660	2.5600	2.8800	3.0000	2.2500
55	2.0000	2.7000	3.0000	3.0000	2.5000
56	2.0000	2.7000	3.0000	3.0000	2.5000
57	2.0000	2.7000	3.0000	3.0000	2.5000
58	2.0000	2.7000	3.0000	3.0000	2.5000
59	2.0000	2.7000	3.0000	3.0000	2.5000
60	2.0000	2.7000	3.0000	3.0000	2.5000
61	2.0000	2.7000	3.0000	3.0000	2.5000
62	2.0000	2.7000	3.0000	3.0000	2.5000
63	2.0000	2.7000	3.0000	3.0000	2.5000
64	2.0000	2.7000	3.0000	3.0000	2.5000
65	2.0000	2.7000	3.0000	3.0000	2.5000

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Assets and Investment Returns

Asset Allocation, 3/31/2007

(A) Asset Class	(B) Market Value (\$ Billion)	(C) Current Allocation	(D) Target
1) Total Cash Equivalents	2.7	1.1%	0.0%
2) Total Global Fixed Income	54.9	23.4%	26.0%
3) Total Equities	157.7	67.2%	66.0%
4) Total Real Estate	<u>19.5</u>	<u>8.3%</u>	<u>8.0%</u>
Total Fund	234.8	100.0%	100.0%

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Assets and Investment Returns

- Large fund
 - Has clout: “corporate governance”
 - Opportunity for very wide diversity
 - Must be careful not to control any segment
- Negative returns in 2000, 2001, 2002, but long-term consistently above assumed rate (now 7.75%)

	2006	5-year	10-year	22-year
Composite PERAC	16.07%	10.79%	10.10%	10.95%
CalPERS	15.74%	10.23%	9.40%	11.40%

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Employer Contributions

- Good times prior to 2000
 - Contribution rates going down
 - Funded ratios going up
 - Many employers on “funding holidays”

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Employer Contributions

- Not such good times by 2003
 - Contribution rates going up
 - Funded ratios going down
 - Employers not happy
 - Lots of bad press

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Year-by-Year System Wide Funded Ratios

	PERAC Aggregate Funded Ratio	CalPERS Aggregate Funded Ratio	CalPERS Aggregate Rate
1997	62.2%	110.9%	8.8%
1998	78.4%	120.5%	9.3%
1999	74.5%	128.4%	5.8%
2000	84.8%	119.5%	1.3%
2001	81.2%	111.9%	1.0%
2002	80.2%	95.2%	2.4%
2003	70.1%	87.7%	5.5%
2004	71.7%	87.3%	12.1%
2005	72.8%	87.3%	16.0%
2006	70.6%	87.6% *	15.8% *
* Estimated			

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Employer Contributions

- What did we do?
 - Met with employers
 - Stability more important than temporary low rates
 - Pooling small plans
 - Rate stabilization
 - Gains and losses amortized over rolling 30 years
 - 15-year smoothing for assets
 - Will we keep it if returns continue high?

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What Will the Future Bring?

- Changes tried
 - Defined contribution plan (failed)
 - New tier of benefits (partially successful)
 - DROP plans (failed)
 - Various minor changes to plans (implemented)
 - Various minor changes to timing and amounts of contributions (implemented)

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What Will the Future Bring?

- Governor's Commission on Post-Employment Benefits
 - 12 members
 - 6 from Governor
 - 3 from Assembly Speaker
 - 3 from Senate President
 - Pension and OPEB
 - Final report due in January

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Notes

